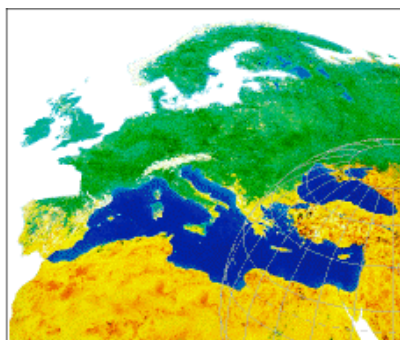




Friends of the Earth
Middle East



Euro-Mediterranean Free Trade Zone

Implications for Sustainability

Case Studies, Assessments and Recommendations

Summary

The full report is available on-line at <http://www.foeme.org>

Executive Summary

Environmental Impacts of a Euro-Mediterranean Free Trade Zone: *Case Studies and Assessments*

Friends of the Earth-Middle East (FoEME), is a unique umbrella organisation representing leading Middle East environmental non-governmental organisations. FoEME's primary objective is the promotion of cooperative efforts to protect shared environmental heritage, and in so doing, to help achieve both sustainable regional development and the creation of necessary conditions for lasting peace in our region.

FoEME is a member of Friends of the Earth International (FoEI), the world's largest network of environmental organisations, operating across the globe.

This project is part of FoEI's Trade, Environment, and Sustainability (TES) programme.

FoEME is also active member of Friends of the Earth's MedNet network, a network of FoE organisations from throughout the Mediterranean region.

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Executive Summary

Environmental Impacts of a Euro-Mediterranean Free Trade Zone: *Case Studies and Assessments*

This research publication is part of **Friends of the Earth-Middle East's (FoEME) Mediterranean Free Trade Zone (MFTZ) Environment Watch Project** to build a broad network of organizations and individuals to monitor the environmental and social implications of the Euro-Mediterranean Partnership.

The research was coordinated by Friends of the Earth-Middle East and was undertaken by researchers from Friends of the Earth-Middle East, EcoCon (Egypt), the Jordanian Society for Sustainable Development (JSSD), Life and Environment (Israel), and the Palestinian Agricultural Relief Committees (PARC). The views expressed reflect those of the individual authors and/or organisations, and do not necessarily reflect those of Friends of the Earth-Middle East.

FoEME is thankful to all those who offered comments and input to draft versions of this report. The full study is available at <http://www.foeme.org>. Comments on this study can be sent by email to: mftz@foeme.org

THE EURO-MEDITERRANEAN FREE TRADE ZONE

The Euro-Mediterranean Partnership (EMP) is a regional policy framework involving the countries of the European Union and twelve non-EU countries from the Mediterranean region. The driving element of the Partnership is a trade liberalisation process which is to be implemented in stages and is expected to culminate in the establishment of a regional free trade zone (FTZ) by 2010. Due to the dominance of the EU market for Mediterranean partner economies, the Euro-Med trade programme is likely to have significant impact on the economic structure of the non-Mediterranean Partner Countries (MPCs). The purpose of this study is to examine potential environmental impacts of the EMP, by examining experiences in other free trade zones and by assessing case studies on sectors of economic, social and environmental importance in MPCs.

The Euro-Med economic programme involves the removal of trade barriers on manufactured goods coming from anywhere in the Euro-Med region. As the EU already provides duty free access to most MPC manufactured goods, the core of the Euro-Med trade initiative is the opening of the economies of the MPCs. In addition to removal of customs duties, the Euro-Med supports broader structural adjustment programmes (SAPs) in the hope of better integrating MPC into the global economy. While the EU will clearly gain from such a process in terms of gaining easier access to Mediterranean markets, the incentive for the MPCs is the opportunity to attract European investment and technology, as well as increased direct financial assistance.

LESSONS FROM OTHER TRADE AGREEMENTS

Other free trade zones such as the EU itself or the North American Free Trade Agreement (NAFTA), indicate that trade liberalisation can have substantial environmental implications, especially among the less economically developed trade partners. Expansion of industrial activity and intensification of agriculture usually result as these economies receive foreign investment and become more export oriented. These generally lead to overall increases in resource consumption and pollution rates for the less developed partners. For many of the MPCs, which are already exploiting their limited natural resource bases at or beyond sustainable rates (e.g. for water), such an expansion could cause irreversible damage.

Both the EU and NAFTA are believed to have caused sharp rises in transportation and related pollution, as goods are now transported longer distances. For the Mediterranean region, this will likely mean increased pressure on ecologically sensitive coastal areas and the marine environment. Trade liberalisation agreements are also considered to accelerate trends of urbanisation, which would mean further pressures on already burdened urban environments in the Euro-Med region. Reduction of customs on foreign goods leads to rises in consumption of consumer goods and resulting increases in resource consumption and packaging waste. Infrastructure in MPC countries is insufficient. Removal of customs also means a reduction in funds available to governments to address environmental and social issues. Thus, a nation's

capacity and willingness to address environmental issues decreases exactly at a time when pressures are on the increase.

Increased efficiency rates may result due to availability of better technology and removal of wasteful subsidies under SAPs. Environmental niche markets may offer potential gains for the both trade and environment. Avoidance of negative impacts and promotion of possible win-win situations can only occur, however, with active promotion of strong supporting institutions and policies backed with sufficient authority and finances. The EU contains a Directorate General to address environmental issues. NAFTA has its own, weaker set of institutions. The Euro-Med, however, currently lacks any strong coordinating institution that could ensure integration of sustainability concerns within Euro-Med programmes.

THE TEXTILE SECTOR IN EGYPT

Textiles are Egypt's leading non-oil export and an important source of employment. While textile quotas are being phased out under a World Trade Organisation agreement, it is believed that non-tariff barriers will remain an important issue. Based on current EU-MPC association agreements, the Euro-Med process is likely to impact the sector through higher investment and increased possibility of penetrating the EU market.

Equipment used in the textile sector in Egypt is old and inefficient. Prices of inputs such as water and electricity do not reflect environmental costs and so are used wastefully. Major environmental impacts of the sector include wastewater effluent and air pollution. Expansion of the industry will presumably lead to increased resource consumption and pollution, given current pricing and regulatory structures. The possibility that producers could benefit from environmental market niches provided by eco-labels or environmental management systems such as ISO 14000 seems unlikely. Most of the producers in the sector are small or medium sized enterprises which lack the financial capital and the knowledge about technical specifications which is necessary in order to take advantage of such opportunities. Indeed, in surveys conducted, they tended to see environmental issues as potential market barriers.

Euro-Med sponsored programmes to promote modernisation of industry could play a potentially beneficial role if they incorporate assistance directed at improving environmental performance into their activities. Such programmes could include collection and dissemination of information regarding environmental standards, technologies, and certification schemes, as well as development of funds to enable small-scale producers to act on such information.

THE PHOSPHATE SECTOR IN JORDAN

The phosphate industry is a major source of foreign currency and employment in Jordan. Mining and mineral processing however, have serious and in some cases irreversible impacts on the environment and on the well-being of the local populations. The sector already extracts water beyond sustainable limits and is one of the country's highest industrial consumers of energy consumption. Air and water degradation due to mining, transport, and processing already negatively affects local human and wildlife populations.

Jordan is planning to expand the amount of phosphate mined by up to 67% over the coming decade and to rapidly develop its fertiliser and chemical production capacity in order to expand into new higher value-added product markets. The industry is seeking investment and joint ventures in order to gain technologies and market contacts. The Euro-Med Partnership is contributing directly to the current expansion of the sector in Jordan, both in terms of direct finance (including a series of EIB loans) and in terms of facilitating new joint ventures between EU and Jordanian firms. In fact, mining has been Jordan's biggest benefactor from the Euro-Med. Jordan's high quality phosphate should give it a comparative cost advantage in meeting high EU environmental standards. This may be a reason for EU interest in investing in this sector.

Events in Jordan's mining sector seem to confirm claims that free trade and structural adjustment programmes tend to spur expansion in highly polluting extractive industries in developing countries. Given the current lack of internalisation of environmental costs for producers in Jordan (both in terms of consumption and emissions) and relatively weak enforcement of environmental regulation, the planned expansion of production is likely to exacerbate current negative environmental impacts, especially in terms of exploitation of scarce water resources and energy consumption. Recommended mitigation measures include region wide research and development into methods of reducing resource consumption for the sector, development of monitoring systems at the industrial level, and increased investment at the sectoral level for pollution prevention and mitigation and for environmental rehabilitation.

AGRICULTURE IN THE SOUTH-EAST MEDITERRANEAN

Agriculture is an important sector socially and economically for several southeast Mediterranean countries, employing large segments of the population, and generating much needed foreign currency. The region is characterised by limited amounts of water and arable land, and a very short rainy season, all of which largely determine the nature and extent of the region's agricultural production. In terms of environmental impact it is the primary consumer of the region's limited water resources. Fertiliser and pesticide use, which contaminate soil and water sources, are widespread due to the region's naturally low soil productivity and to price supports in some of the countries. Cultivation of cash crops for export tends to be much more resource intensive and polluting than does production for local consumption.

The Euro-Mediterranean Partnership's trade liberalisation programme calls for progressive liberalisation of agricultural trade in the region, although stopping short of calling for completely free trade as it does in the case of manufactured goods. This is largely due to the EU's protective Common Agricultural Policy. In association agreements between the EU and southeastern Mediterranean countries, areas in which the EU granted trade concessions have largely been restricted to early (usually winter) crops of fruits and vegetables which do not compete with production within the EU. Such limitations do not necessarily correspond to the natural peak production for these countries. Thus, in order to capitalise on the lucrative EU market opportunities many farmers are forced to choose crops that are not appropriate to the region and which demand intensive applications of inputs, e.g. water and agro-chemicals, and/or to farm on marginal lands.

The Barcelona Declaration of 1995 which established the Euro-Mediterranean Partnership calls for promotion of environmentally-friendly agriculture. Actual activities promoting such an objective, however, were not apparent in the countries studied. While the EU market for organic agriculture is growing rapidly, for instance, relatively few farmers are able to take advantage of it due to: relatively limited export opportunities overall for agricultural goods, a high level of information needed regarding standards and market contacts, high up-front costs needed for certification, and a lack of necessary infrastructure. In order to genuinely promote such a goal, association agreements could be expanded to offer special concessions for sustainable agricultural production, programmes could be developed to develop networks for dissemination of information on environmental market opportunities, and price supports for agricultural inputs could be removed or restructured so as to be tied to sustainable production.

ENVIRONMENTAL LAW IN THE EUROMED REGION

While the Euro-Med trade programme is promoting harmonisation of trade regulation and other economic policies within the region, large legal gaps between Euro-Med partners remain in the field of environmental legislation, as well as in areas such as public access to information, which are crucial to proper environmental monitoring. In general, the European Union far outpaces its MPC neighbours in terms of the comprehensiveness and stringency of its regulatory system vis-à-vis environmental protection. Furthermore, while the EU has a supra-national regulatory structure, in the form of EU-level directives and regulations which address transboundary issues, the MPCs studied tend to lack such mechanisms.

The legal frameworks dealing with the environment differ widely among MPCs. A common characteristic, however, is a duplication of responsibilities among government bodies responsible for the same environmental issues. This results in bureaucratic slow-downs and in environmental issues being neglected completely. In addition, often in MPCs, even when framework legislation exists, the necessary by-laws, standards, and supporting agencies necessary for enforcement of the laws do not. Moreover, due to inadequate capacity, little public pressure, and a lack of political will, enforcement of environmental legislation in MPCs tends to be weak. Under the Euro-Med's trade programme, this lack of basic environmental regulation could result in rampant economic development in MPCs, without proper planning such as environmental impact assessments (EIAs) and pollution prevention initiatives, and without channels for public scrutiny of the development process. Furthermore, the wide legal gaps between the EU and MPCs could provide the legal conditions necessary for accelerated development of highly polluting industries in MPCs and even possibly the relocation of such industries from the EU to MPCs.

In order to close these legal gaps it will be necessary to upgrade the legal regime of each MPC. Support is also necessary to develop capacity among the bodies responsible for enforcement. A common environmental legal mechanism is one option for doing so in a consistent manner. Such a mechanism could be administered through an Euro-Med institution responsible for the environment or possibly within the framework of the Barcelona Convention and the Mediterranean Action Plan. One possible basis for a unified environmental legal mechanism could be a common Euro-Med framework for environmental damage liability.

RECOMMENDATIONS

The Euro-Mediterranean Partnership's current economic liberalisation programme is likely to contribute to environmental degradation in the MPCs, especially in the short and medium term. During the first four years of the Partnership, relatively little has been done to anticipate the environmental stress likely to be caused by the trade policies. Euro-Med programmes which are responsible for addressing environmental concerns have been slow, overly bureaucratic and ineffective. If the Euro-Med Partnership is to live up to its stated goal of creating "a zone of shared prosperity," based on sound, sustainable development, a rethinking and reordering of priorities needs to be undertaken immediately.

In order to avoid or to mitigate some of the environmental pressures anticipated to result from the Euro-Mediterranean Partnership's trade policy and to actively promote potential environmental opportunities opened by the Partnership, the following measures are recommended:

- ***Incorporation of Environment in Bilateral and Regional Agreements.*** As most of the impacts of the Euro-Med economic policy will result from the EU non-EU relations, it is essential that environmental concerns be considered in the negotiation and implementation of the EU-MPC bilateral association agreements, as well as at the regional level.
- ***Specific Targets.*** As it does for its trade programme, Euro-Med agreements and policies should designate specific sustainability targets, with reasonable schedules and finances necessary for achieving them. These targets should be included in Euro-Med trade agreements, in the various sectoral fora, and in development of funding allocations.
- ***Institutional Coordination.*** A strong institution within the Euro-Med Partnership is needed to coordinate environmental programmes and policies and ensure that sustainability concerns are well integrated into overall Euro-Med policy initiatives.
- ***Sustainability Impact Assessments.*** An officially sponsored sustainability assessment should be carried out immediately on the planned regional free trade zone and its recommendations incorporated into Euro-Med policies. Assessments of the bilateral agreements should also be undertaken and data shared among partner countries.
- ***Environmental Screening of Official Euro-Med Finance.*** All significant financing undertaken within the framework of Euro-Med institutions (e.g. MEDA and EIB), or between Euro-Med governments (e.g. via export credit agencies) should undergo sustainability screening, especially that promoting industrial and/or infrastructure expansion. In cases in which projects receive funding despite limited environmental damage, matching funds should be made available for necessary mitigation and/or compensation measures.
- ***Capacity Building.*** Programmes to develop technical and professional capacity both at the private sector and governmental levels, need to be implemented in order to identify and address trade-environment issues and to facilitate exploitation of environmental opportunities within the Euro-Med system.
- ***Internalisation of Environmental Costs.*** Policies to incorporate environmental impacts into pricing should be encouraged, including eco-taxes and the removal or reduction of wasteful subsidies and other price supports for water and electricity. Such policies both remove market distortions and improve natural resource conservation and pollution prevention. As these price supports are often important for poorer segments of the population, alternative policies need to be in place to assure provision of basic needs. Work on developing such a restructuring of policies should be incorporated into MEDA funding for structural adjustment.
- ***Debt Restructuring.*** Debt forgiveness or restructuring by EU creditor nations, especially in the form of debt-for-nature swaps, could relieve alleviate the fiscal strain on MPC government revenues, which currently constrains governments from implementing necessary projects.
- ***Sustainability Indicators.*** A system of national and regional indicators reflecting progress in terms of sustainability which is specific to issues raised by trade liberalisation should be monitored, so that member countries can evaluate and respond to social and environmental impacts.

- ***Multi-stakeholder Participation.*** Incorporation of multiple stakeholders into the Euro-Med decision-making process should be developed and integrated throughout the various levels of Euro-Med policies and activities. Currently, efforts towards significant non-governmental participation are being developed primarily with the private sector. Participation by civil society and by local populations affected by Euro-Med policies should be developed beyond its current, largely, token levels.
- ***Priority Action.*** Given the substantial on-going progress in liberalising trade, within the Euro-Med Partnership, and given that certain general trends in terms of environmental impact are evident or extremely likely, immediate action should be taken to prepare and implement basic measures to ensure environmental protection. Lack of official studies or accurate data is a serious gap in promoting, effective policies, however, they should not be an excuse for inaction.



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